

BILL # HB 2421

TITLE: school tax credit; classroom instruction

SPONSOR: Gray

STATUS: As Amended by Senate Finance and Senate Rules

REQUESTED BY: Senate

PREPARED BY: Jake Corey

FISCAL YEAR

2003

2004

2005

REVENUES

General Fund – Individual Income Tax

\$-0-

See Below

FISCAL ANALYSIS

Description

A.R.S. § 43-1089.01 currently allows taxpayers to claim a credit against their Arizona individual income taxes for the amount of any fees paid or contributions made in the taxable year to a public school in support of extracurricular activities or character education programs. The amount of the credit is capped at \$200 for an individual and \$250 for a married couple.

Extracurricular activities are defined in A.R.S. § 43-1089.01 as “school sponsored activities that require enrolled students to pay a fee in order to participate.” Currently, statute includes under that definition, but does not limit that definition to, the following list of items: 1) band uniforms, 2) equipment or uniforms for varsity athletic activities, and 3) scientific laboratory materials.

The bill, as amended, adds to the list of items included under the definition of extracurricular activities in-state or out-of-state trips that are solely for competitive events. The bill specifies that senior trips or recreational, amusement, or tourist activity events do not fall under the definition of extracurricular activities.

Estimated Impact

The bill could potentially increase state General Fund tax revenues by reducing use of the current income tax credit.

Adding competitive event trips to the list of items included under the definition of extracurricular activities would not expand the allowable uses of the credit. The list of items included under the definition of extracurricular activities is not an exclusive list. Under current law, a credit may be claimed for fees or contributions made in support of any activity, provided it fits the definition of a “school sponsored activity that requires enrolled students to pay a fee in order to participate.” Therefore, as long as a competitive event trip was school sponsored and required a fee to participate, any fees or contributions for the trip *would already qualify* for the credit under current statute. A competitive event trip that was not school sponsored or did not require a fee to participate would not qualify for the credit under current law. This language, then, would not have an impact.

The language specifying that senior trips or recreational, amusement, or tourist activity events do not fall under the definition of extracurricular activities would restrict the allowable uses of the credit, which might increase state General Fund income tax revenues. There is no available data, however, on the current number or dollar amount of public school tax credits being claimed for senior trips or recreational, amusement, or tourist activity events. Therefore, we can not estimate any potential savings from eliminating a credit for those activities.

(Continued)

Estimated Impact (Continued)

Any impact would begin in FY 2004, as the bill would affect tax returns beginning in tax year 2003 (FY 2004).

The Department of Revenue believes the bill would have a minimal impact, as it is difficult to audit individual returns to determine if the credits claimed fall within statutory guidelines.

Local Government Impact

Incorporated cities and towns receive 15% of income taxes collected 2 years prior in the Urban Revenue Sharing system. Any FY 2004 state General Fund income tax revenue increase, therefore, would increase local government revenues by a proportional amount in FY 2006.

4/11/03